

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7940

BILL NUMBER: HB 1833

DATE PREPARED: Jan 10, 2001

BILL AMENDED:

SUBJECT: Inflation adjusted personal deductions.

FISCAL ANALYST: Brian Tabor

PHONE NUMBER: 233-9456

**FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL**

IMPACT: State

Summary of Legislation: This bill requires certain deductions from an individual's Adjusted Gross Income (AGI) to be adjusted according to the Consumer Price Index.

Effective Date: January 1, 2002.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur administrative expenses associated with annually updating tax forms, instructions and computer programs to adjust for the new exemption amounts. It is expected that the Department could absorb these costs given its existing budget and resources.

Explanation of State Revenues: *Based on the assumptions explained below, the impact of this proposal in FY 2003 could be between \$7.3 M and \$11.7 M in reduced revenue, depending on the rate of inflation.*

Beginning in the 2002 taxable year, this bill would adjust the \$1,000 blind and elderly tax exemption and the \$1,000 personal exemption for taxpayers, spouses, and dependents for inflation using the Bureau of Labor Statistics' Consumer Price Index (CPI). The amount of the exemptions allowed would be increased each year by the percentage change in the CPI (unless the change is negative, in which case exemptions would remain unchanged for that year).

Data and Estimation

Exemption data: According to 1998 DOR individual income tax data, there were 5,926,193 personal exemptions of \$1,000 claimed on Indiana tax returns. Since 1996, the average annual rate of growth for these exemptions has been 2.38%. Also in 1998, 606,259 exemptions were claimed for those over the age of sixty-five and blind individuals. Since 1996, the average annual rate of growth for these exemptions has been 1.31%.

Consumer Price Index: From 1989 to 1999, the average annual increase in the Consumer Price Index was 3%. However, the percent change was as low as 1.55% from 1997 to 1998 and as high as 5.40% from 1989 to 1990.

Projected Impact: Assuming the growth rates given above for the affected exemptions remain constant and that the percentage change in the CPI from 2000 to 2001 will be 3% (the ten-year average), the exemption amounts for tax forms in 2002 would be increased to \$1,030. This could potentially result in an additional \$214.7 M in income being exempted from state taxable income. The fiscal impact in FY 2003 would be a \$7.3 M revenue loss, or \$214.7 M multiplied by the Individual AGI Tax rate of 3.4%.

The impact in FY 2003 and subsequent years ultimately depends on the annual change in the CPI. If higher rates of inflation occur and the change in the CPI rose to 5.00% from 2000 to 2001, the FY 2003 impact could be as much as \$11.7 M.

Individual AGI Tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties imposing local option income taxes would experience an indeterminable decrease in revenue collections due to the adjustment of personal exemptions.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties imposing local option income taxes.

Information Sources: Bureau of Economic Analysis, Bureau of Labor Statistics.